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## INCIDENTAL TAXATION.

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THE incidental taxes to which attention is directed are levied whenever the cost of domestic commodities is increased by reason of duties laid on imported articles of like character. Political economists have usually classified taxes as either direct or indirect. Direct taxes are those which fall upon the citizen or subject, and are levied from him; indirect taxes are levied on property, merchandise, commodities, and are, in the last resort, paid by the consumer in the form of an enhanced price. Adam Smith, the father of the science of political economy, laid down four maxims in regard to taxation, which have generally been concurred in, and which, as remarked by John Stuart Mill, have become classical. These maxims are in substance as follows:

*First.* The subjects of every State ought to contribute to the support of the Government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the State.

*Second.* The tax should be certain, and not arbitrary; the time and manner of payment, and the amount to be paid, should be definite and understood by all persons.

*Third.* Every tax should be levied at the time and in the manner most convenient for payment.

*Fourth.* Every tax ought to be so contrived as to take from the people as little as possible over and above what it brings into the public treasury.

These propositions seem to be self-evident; that they are correct in principle is not denied by any one. Yet, strange as it may seem, the system of taxation upon which the Government of the United States relies for its revenues violates nearly every one of these maxims. The first maxim is violated in this: that under our federal system every person contributes to the sup-

port of the Government, not in proportion to the revenue which he enjoys under its protection, but in proportion to the amount of commodities which he consumes. A millionaire may not pay a greater amount of taxes to the National Government than a person of very limited means. In both cases the amount contributed to the support of the Government depends upon the articles consumed. The second maxim is violated in this: that no person knows how much he pays or when he pays it. The fourth maxim is violated in a most striking manner. The federal system of taxation takes from the people as great an amount as possible over and above what it brings into the public treasury. By the imposition of discriminating duties, the consumer is required to pay two distinct taxes, only one of which is paid to the Government; the other goes to the producer or manufacturer of the article, or is lost on unprofitable industries. The first of these we will denominate revenue taxes, the second incidental taxes.

A discriminating duty is one which is imposed upon the importation of commodities of foreign production, unaccompanied by an equivalent tax upon the home product of like character. The imported article can only be sold in this country after payment of the Government duty. "A tax on any one article," says Mr. Mill, "will, as a general rule, raise the value and price of the commodity by at least the amount of the tax." This, of course, relates to the price of the commodity upon which the tax is actually laid and collected; but the rule as to the increased cost of other commodities not taxed, but incidentally affected by the tax, varies according to circumstances. If the home product of a given article is not equal to the home demand for consumption, and imports of like character come in to supply the deficiency, the whole amount of the tax on the imported article will be added to the price of the home product. For example, Bessemer pig iron, which was imported during the last year to the amount of five hundred thousand tons, was worth in England in January last about \$13.38 per ton. The duty was then \$7.00 per ton, and that, with freights and other charges, would raise the cost in this country to about \$22.00 per ton. At the same time, the selling price of the home product in this country was \$22.00 to \$22.50 per ton. Upon this article, at that time, the whole domestic product was increased in value to the full amount of the duty.

If the home product is equal to or exceeds the home demand, but cannot be exported without loss to the producer or manufacturer, the increased cost of the home product will be measured by the cost of production, with such profits as may be permitted by domestic competition, and will always be less than the tax upon the foreign product. For example, English steel rails can be laid down in New York for about \$25.00 per ton. Prior to the passage of the new tariff law the duty was \$28.00 per ton. This would make the selling price of English rails in New York \$53.00 per ton. But the home product was selling at the same time at \$40.00 per ton, showing that the cost of American rails was only \$15.00 per ton in excess of foreign rails, instead of \$28.00, which was the amount of the duty. Hence, upon this article at that time the price of the home product of steel rails was enhanced only \$15.00 per ton, and not to the extent of the duty. But this low price of the home product was the result of domestic competition, and has only been recently realized. During the years 1880 and 1881, for instance, prices were such that the whole amount of the duty was added to the cost of the domestic article.

If home products exceed the home demand for consumption, and can be exported at a profit to the producer or manufacturer, the imposition of a duty on imported articles of like character will not affect the price of the home product. For example: there is a nominal duty of ten cents a bushel on imported Indian corn, but the imports of that article for the last fiscal year were only 69,641 bushels, while the exports for the same year were 43,000,000 bushels, and for the preceding year 91,000,000 bushels. The same may be said generally of all breadstuffs and farm products. Although duties are levied upon the importation of similar articles, yet these are merely nominal, and do not increase the price of the domestic products to consumers, except in a few cases. The exceptions are rice, sugar, oranges and lemons, barley, malt, potatoes at markets near the Eastern seaboard, and a few other articles which it is unnecessary to mention.

In these observations I do not wish to be understood as departing from the principle that prices are governed by the law of supply and demand. The Government, by the imposition of duties on imported articles, limits the supply of such articles in all cases where the home product is not equal to the demand for

home consumption, and thus, by limiting the supply, increases the price of the product on hand. But if articles are produced in excess of the demand for home consumption, the price at which the surplus product can be sold in foreign markets determines the price of the home product. In like manner, the price of domestic products which do not equal the home demand is determined by the price at which imported articles of like character can be sold in this country after paying the duty.

The federal system of taxation violates the fourth maxim laid down by Adam Smith in other respects. All imported commodities which have actually paid the tax, and domestic products which have been increased in value by reason of the duty, constitute the stock on hand and to be carried by the merchants of the country; and the capital which they are required to invest and keep in their business is much greater by reason of the incidental and revenue taxes which the articles bear. Thus a greater amount of capital is required to carry on a given amount of business; and the larger the capital required the more limited will be the number of persons engaging in a particular business. This produces the double injury of limiting the capital of the country in the transaction of legitimate business, and of creating and fostering monopolies by limiting the number of persons who may be engaged in any particular pursuit.

The value of taxed commodities represents two distinct advances,—one in the real value of the article and the other in the tax. The wholesale dealer advances both sums; he sells to the retail dealer and charges a profit on the whole amount advanced. The retail dealer sells to the consumer and charges a commission on all he paid to the wholesale dealer. Thus the taxes which the consumer must pay at last are vastly in excess of what the Government really gets.

Incidental taxes, as well as those received by the Government, have vastly increased the cost of railroads. This additional cost is represented now by bonds and stock, and constitutes permanent indebtedness, upon which interest and dividends must be paid from year to year. In order to meet these demands, higher rates must be charged for carrying freights; this reduces the price of grain and of farm products, and increases the price of articles which farmers are compelled to buy.

The cost of the construction of houses is largely increased by incidental taxes. The materials are taxed from 20 to 80 per

centum. Instead of a real value of \$1000 there is a real and tax value of perhaps \$1500. Upon this latter sum the landlord must estimate in order to obtain his remuneration in rents. The poor tenant must at last pay the taxes on the materials of construction, with interest, insurance, and commissions of middle-men added.

The National Government is constructing many public buildings in Washington and elsewhere. The States are engaged in building State-houses, charitable institutions, and prisons. Counties are building court-houses, jails, and bridges. Cities and towns are constructing public halls, school-houses, and water-works. The materials for all these public works are heavily burdened with incidental and revenue taxes. Other taxes must, therefore, be levied and collected to meet those previously imposed. What were at first incidental and indirect taxes must, when borne by States and municipalities, be reimbursed by direct taxation under the State systems.

"Taxes which are imposed upon the necessities of life," as observed by Sir Matthew Decker, "are sometimes repeated and accumulate four or five times. In the price of leather, for example, you must pay not only for the tax on the leather in your own shoes, but for part of that in the shoes of the shoemaker and the tanner." Thus a much larger amount of taxes is taken from the people by the federal system of taxation than is received by the Government.

Another objection to this system of taxation is this: The imposition of duties upon consumable commodities, by increasing their cost, limits the amount of consumption; and by limiting consumption the demand is diminished, and thus all kinds of industries are injuriously affected.

The burden of incidental taxation is greater than the sum exacted by the increased cost of consumable commodities. The taxes which the Government must have for its own purposes have been, since the war, very great. Every increase of tax burden above a reasonable limit is felt more severely than would a like sum within such limit. It is like loading a ship to the extent of her capacity and then imposing a still greater burden, which may result, however light, in disaster. Taxation within a reasonable limit may be borne without serious inconvenience; but exceed this limit, and embarrassment, restricted enjoyments, and frequently financial ruin ensue.

The chemist can, by analysis, ascertain the component parts

of a piece of ore; can determine the percentage of gold, silver, copper, and iron. But it would tax the ingenuity of the political economist, or the Treasury expert, or even the actuary of a life insurance company, to ascertain with perfect accuracy just how much real value and how much tax cost are represented in the price of any commodity when it finally reaches the hands of the consumer. While perfect accuracy is not possible, yet we may estimate, with reasonable certainty, the amount of incidental taxes which the people pay by reason of discriminating duties on imported articles. I have carefully examined the reports of the Bureau of Statistics of the Treasury Department, for the purpose of ascertaining the value of imports for home consumption, the duty received thereon, and the average rate of duty on each class of articles. I have also carefully examined the reports of the census of 1880, for the purpose of ascertaining the value of home products affected by the tariff, the total amount of wages paid in the creation of such products, and the estimated rate of increase of such products, *ad valorem*, and the incidental taxes which such home products bear, or, in other words, their increased cost by reason of the duties imposed on imported articles of like character.

The most important schedule in the tariff law is that on metal, which embraces iron and steel and the manufactures thereof, also copper, brass, tin, zinc, and other metals. It is claimed that a reduction of rates upon this schedule has been made by the new law; but the statisticians of the Treasury Department are unable as yet to determine what reduction, if any, will result from the changes which have been made. The Tariff Commission, in their report, page 16, submit a statement of the aggregate product of articles embraced in the metal schedule, which I have adopted. But, after a careful examination of the metal industries whose products are materially affected by the tariff, I was unable to produce so large an aggregate. However, by reducing the amount of increased cost to twenty per centum, which is a very low estimate, substantially the same result is reached, so far as the incidental taxes are concerned.

The Tariff Commission estimated the home product of lumber and the several branches of wood manufactures at \$509,000,000; but this includes many industries, the products of which are not materially increased in value by reason of the duty. I have endeavored to eliminate all such industries from

my statement, and present only the products of such as are affected by the tariff. There was no material reduction by the new Act of the duties on articles of this kind. There were special reasons, other than the amount of the incidental taxes, why lumber should have been placed on the free list. The duty operates as an encouragement to the destruction of our forests, and that may result in important climatic changes, in the course of time, unless the present rate of destruction is arrested.

The product of sugar refineries does not represent the home product of the raw material, for the refiners use the imported low grade sugars, as well as the home growth, in the manufacture of their product. The sugar produced by the planters in the census year amounted to 196,759,200 pounds, and the molasses to 16,573,273 gallons. Under the old tariff law the sugar duty was about  $2\frac{1}{2}$  cents a pound; under the new Act it is about two cents. The molasses tax was reduced from  $6\frac{1}{2}$  to  $5\frac{1}{2}$  cents per gallon, according to the Treasury estimates. Under the new law, assuming the imports and the home product of raw material to remain the same, the increased cost to consumers for the next fiscal year, on account of the duty on sugar and molasses, will be \$4,846,714. Under the old law this increase amounted to about \$6,000,000, the benefit of which was divided between the refiners and the planters, with the probability that the former obtained the lion's share. However, sugar affords a fair illustration of a tariff for revenue with incidental protection. The Government gets a revenue of nearly \$50,000,000, while the incidental taxes amounted to about \$6,000,000 a year under the old law, and will amount to less than \$5,000,000 a year under the new law.

Tobacco is peculiarly affected by the tariff. The principal imports are of unmanufactured leaf tobacco. Foreign manufactured tobacco is practically excluded by a duty of 50 cents a pound, which is equivalent to 225.41 per centum, *ad valorem*. The new Act reduces this duty to 40 cents a pound, and the internal revenue tax from 16 cents to 8 cents a pound on manufactured tobacco, and from \$6 to \$3 per thousand on cigars. The internal revenue received by the Government on account of the tobacco tax amounted to \$47,000,000 for the last fiscal year. It is fair to estimate the increased cost of the home product of manufactured tobacco, by reason of the tariff, at 25 per centum.



## STATEMENT

SHOWING THE AMOUNT OF INCIDENTAL TAXES ANNUALLY IMPOSED ON THE PEOPLE OF THE UNITED STATES, IN THE INCREASED COST OF HOME PRODUCTS, BY REASON OF DISCRIMINATING DUTIES ON IMPORTED ARTICLES OF LIKE CHARACTER, TOGETHER WITH THE VALUE OF SUCH HOME PRODUCTS, THE AMOUNT OF WAGES PAID AND NUMBER OF HANDS EMPLOYED, AND THE IMPORTS AND DUTIES RECEIVED THEREON, FOR THE YEAR 1882.

ARTICLES AFFECTED BY THE TARIFF.	MERCHANDISE IMPORTED DURING THE FISCAL YEAR ENDED JUNE 30, 1882.			Value of home products, census year, 1880.	Average number employed. Boys under 16 and girls under 15 counted as one- half a hand.	Total amount in wages during the year.	Estimated rate of increase, ad valorem.	Incidental taxes —being the in- creased cost of home products by reason of the tariff.
	Values.	Duty received.	Average ad valorem rate.					
Chemical products .....	\$21,517,169	\$6,715,561	31.32 pr. ct.	\$117,977,924	28,895	\$11,840,704	20 pr. ct.	\$23,475,464
Earthenware and glassware.	13,822,043	6,693,257	48.42 “	31,632,309	30,674	13,130,403	45 “	14,234,639
Metals—Iron and steel, and all metal manufactures ...	74,427,988	30,358,936	40.79 “	604,553,460	290,000	123,648,191	20 “	120,910,692
Wood and wooden wares ...	8,654,327	1,589,851	18.37 “	311,928,884	185,426	47,817,199	15 “	46,789,832
Sugar and molasses .....	94,540,269	49,210,573	52.05 “	See note below.			40 “	4,846,714
Tobacco .....	8,216,132	6,000,961	73.03 “	118,665,366	81,809	25,041,287	25 “	20,666,341
Cotton and cotton goods.....	34,963,044	13,482,167	38.67 “	210,950,383	170,363	43,614,419	20 “	42,190,076
Hemp, jute and flax goods ..	33,573,076	9,844,652	29.32 “	5,513,866	4,329	1,238,149	20 “	1,103,773
Wool and woolsens .....	47,673,502	29,254,234	61.36 “	267,182,914	145,341	47,351,628	40 “	106,873,165
Silk and silk goods .....	38,533,475	22,632,490	58.73 “	41,033,045	28,554	9,146,705	50 “	20,516,522
Books, paper, etc.....	4,923,620	1,406,787	28.57 “	65,960,405	25,274	9,895,995	20 “	13,199,081
Sundries .....	69,410,690	17,272,269	27.68 “	665,699,693	337,216	129,881,399	20 “	133,139,938
Total .....	\$63,173,335	\$194,464,758		\$2,440,502,049	1,327,881	\$463,606,049		\$556,936,637

NOTE.—Planters' product for 1880 was : Sugar, 196,759,200 pounds ; molasses, 16,573,273 gallons. Number and wages of laborers not stated.

I have carefully compiled, from the reports of the Census Bureau and the tables of the Treasury experts, the data, in the accompanying statement, in reference to the various commodities mentioned therein. It will be seen, from an examination of the statement, that the rate of increase in the cost of the home product by reason of the tariff has been estimated in each case at much below the duty itself. This is due to the fact that many of the articles are increased in price only to a limited extent, by reason of the tariff. The statement embraces nearly all the industries of the United States which are materially affected by the tariff, and gives also the number of employés in such industries, the amount of wages paid to them, and the total value of the home product. The item of sundries embraces all protected industries not otherwise enumerated, except such as are mentioned below.

I am unable to obtain a reliable estimate of the amount of provisions and liquors which are increased in price by reason of the tariff. Very few provisions are increased in price. Rice is an exception. The total product of the United States for the census year was 110,131,373 pounds. The amount imported was nearly 64,000,000 pounds, and the duty was  $2\frac{1}{2}$  cents per pound, or 111 per centum, *ad valorem*. The price of the home product is doubtless increased to consumers to the extent of at least 2 cents a pound by reason of the tax, which would amount to an incidental tax burden of \$2,200,000.

There are many other articles affected by the tariff which are not included in my statement, such as barley, malt, lemons, oranges, domestic wines, etc. But the amount of incidental taxes upon the chief articles of consumption is quite large enough to arrest public attention. I have based my estimates upon the rates of duty imposed by the Tariff Law of March 3rd, 1883. If I have erred in any way, it is in placing the amount of incidental taxes too low. The people of the United States have been subjected to a burden of at least \$556,000,000 every year for the past twenty years, making an aggregate of over eleven billions of dollars, not one dollar of which went into the National Treasury. Since the war began, we have paid more by incidental taxation to protect our "infant industries" than it cost to put down the rebellion, and pay all the claims, bonded debt, interest, and damages, incident thereto.

The number of persons employed in protected industries,

even if the working-men enjoyed the benefit of the bounty, which is disputed, hardly justifies the enormous burden which they and all other citizens must bear. The number shown in the statement is 1,327,881. This does not include the laborers employed in raising sugar-cane and rice, and those in some other protected industries. But all estimates on this account would not increase the number to more than a million and a half. All the persons engaged in manufacturing, mechanical, and mining industries, according to the census of 1880, numbered 3,837,112; those in agriculture, 7,670,493; those in trade and transportation, 1,810,256; and those in professional occupations, 4,074,238. Total, 17,392,099. Of the grand total of the toilers of the country, 15,900,000 manage to "live, move, and have their being," without receiving a farthing of bounty or exacting a penny of protection from the rest of the community. The other million and a half of laborers derive no benefit whatever from the vast sum of incidental taxes demanded in their behalf. The bounty is obtained under false pretences, and is either wasted on unprofitable industries or lavished on rich monopolists.

WILLIAM M. SPRINGER.